

March 28, 2024
015/2024-VNC

EXTERNAL COMMUNICATION

Listed B3 Participants

Re.: **Public Consultation – Changes to the B3 Clearinghouse Rulebook – B3’s Recovery Plan**

For consideration and comments by B3’s participants and other stakeholders, B3 submits to Public Consultation the changes to the B3 Clearinghouse Rulebook (Rulebook) in order to provide for the measures that may be adopted by B3 in the event of activation of B3’s Recovery Plan under a scenario of impossibility of closing out defaulting participants’ positions within a prescribed period.

The Recovery Plan presents and formalizes a set of recovery strategies in response to extreme scenarios with the potential to affect the continuity of the critical services and systems offered by the financial market infrastructures (FMIs) managed by B3. The Plan constitutes an element of risk mitigation if such FMIs adversely impact the financial system in the event those extreme scenarios materialize.

In September 2021, B3 submitted to Public Consultation changes to the regulations of the B3 Clearinghouse, B3 Foreign Exchange Clearinghouse, B3 Equities Central Depository and OTC B3 to provide for the measures, with an impact on participants, that may be adopted by B3 upon materialization of other scenarios foreseen in the Recovery Plan. The changes then presented, including

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adjustments resulting from that Public Consultation, were submitted for consideration and approval by the Central Bank of Brazil (BCB) and the Brazilian Securities and Exchange Commission (CVM) and took effect in November 2022.

The changes presented in this Public Consultation consist of complementing the measures set out in the Rulebook to include the recovery tools known as “auction” and “compulsory early settlement”, which may be adopted by B3 in the event of activation of the Recovery Plan in the scenario of impossibility of closing out defaulting participants’ positions within the expected timeframe.

The Rulebook subject to Public Consultation with revision marks is available at www.b3.com.br, Regulação, Consulta Pública, Plano de Recuperação da B3 – Leilão e liquidação antecipada.

Annex I of this External Communication presents the object of the Public Consultation and describes its motivation and proposed rules. Annex II contains the changes made.

The Public Consultation will last sixty (60) calendar days, ending on **May 27, 2024**. Suggestions and comments should be sent to consultapublicapr@b3.com.br, preferably accompanied by arguments, justifications and writing proposals, when applicable.

After evaluating the feedbacks, a report will be prepared summarizing the suggestions and comments received, as well as any adjustments to the Rulebook including the accepted suggestions. Feedbacks not related to the proposed object of the Public Consultation will be disregarded. The report will be published

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on the B3 portal and its publication will be communicated to the market through an External Communication.

Upon disclosure of the report, B3 will submit the proposed changes, including any adjustments resulting from the Public Consultation, for consideration and approval by the regulatory bodies, namely BCB and CVM. The changes will come into effect only after the regulatory bodies approval.

Further information can be obtained from the Risk Center by telephone on +55 11 2565-5030 or by email at consultapublicapr@b3.com.br.

Mario Palhares
Chief Operating Officer – Electronic Trading and CCP

Annex I to EXTERNAL COMMUNICATION 015/2024-VNC

Presentation of the Purpose of the Public Consultation

B3's Recovery Plan is a document whereby a set of recovery strategies is presented and formalized in response to certain extreme and plausible scenarios, with the potential to affect the continuity of critical services and systems provided by B3, and constitutes an element of risk mitigation of adverse impacts on the financial system in the event of extreme scenarios.

B3's Recovery Plan was drawn up meeting the recommendations of Principle 3 of the Principles for Financial Market Infrastructures (PFMI), which determines that a financial market infrastructure (FMI) must develop a robust risk management structure that is compatible with the complexity of its operations, containing policies, procedures, controls, information systems and recovery plans, among other instruments. In addition to Principle 3, the Recovery Plan follows the recommendations contained in the 2014/2017 Recovery of Financial Market Infrastructures report, a specific guide for the development an FMI recovery plan.

Specifically within the scope of this Public Consultation, it concerns the default scenario by the B3 Clearinghouse participants and the impossibility of closing out the defaulting participants' positions after carrying out the steps provided for such closure in the normal course of default management. The following are events and assumptions of this scenario:

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- (i) The occurrence of total or partial payment failure in local currency by one or more clearing members of the B3 Clearinghouse;
- (ii) The activation of procedures applicable in the event of default aimed at closing out the positions of the defaulting investor; and
- (iii) The impossibility of closing out all the defaulting investor's positions within the prescribed timeframe.

In this context, the Recovery Plan may be activated if the positions that could not be closed out within the prescribed timeframe imply financial loss in an amount greater than the funds of the Clearinghouse's safeguard structure, or if B3 considers that failure to close out these positions may compromise the provision of services by the Clearinghouse.

Considering its role as a central counterparty (CCP), B3 Clearinghouse is placed between the buyer and the seller of a transaction assuming the position of the buyer to every seller and the seller to every buyer. Therefore, any position taken by the CCP with one party to the transaction is offset by the opposite position taken with the other party, so that the payments owed by the CCP to one party to the transaction are exactly equal to the payments owed to the CCP by the other party, striking a balance between the CCP's long and short positions, namely, in a neutral position ("matched book"). Therefore, the Clearinghouse's main source of risk, within the scope of the central counterparty service in the settlement of trades, is the possibility of default or delay by participants in fulfilling the obligations arising from their transactions. If there is no default event, the Clearinghouse does not have direct exposure to market and liquidity risks.

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On the other hand, in the event of a participant's default, the Clearinghouse assumes direct exposure to these risks as the balance between long and short positions ("unmatched book") is lost, and the Clearinghouse is responsible for activating its safeguard mechanisms to ensure the proper settlement of trades, in the manner and within the established deadlines. In this situation, the CCP must continue to fulfill its payment obligations to non-defaulting creditor clearing members, subject to the availability of funds in its safeguard structure.

Failure to close the defaulter's positions within the prescribed timeframe may imply the need for funds in an amount greater than that available in the safeguard structure, as this was designed assuming the Clearinghouse's exposure to market and/or liquidity risks for a period no longer than that term.

Therefore, B3 will include in the Rulebook the rules for holding an auction and compulsory early settlement of positions upon activation of the Recovery Plan, according to the scenario presented, aiming to reestablish the CCP's neutral position.

Auction

This recovery tool consists of holding an auction of the defaulting investor's positions not yet closed out and constitutes the last opportunity for participants to voluntarily assist the B3 Clearinghouse to return to the neutral position condition, which is an essential stage in the process of treating the event of default. Furthermore, the auction signals to participants with exposure to the defaulter's portfolio – those positioned at the opposite end or who are counterparties to the defaulter – the possibility of compulsory early settlement of

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their positions, since such settlement is the recovery tool to be used following the auction, if necessary.

As specified in the Rulebook draft, the auction will be held upon activation of the Recovery Plan and in accordance with a specific notice to be published on a case-by-case basis, in case positions that could not be closed out in the manner and within the deadline established for the default management process remain open.

The positions subject to the auction will be defined by B3 according to the availability of funds in the safeguard structure and the risk that such positions represent for the portfolio. The following positions are excluded from this possibility: positions that are in a cash settlement cycle, in the process of settlement renewal or early settlement, or delivery failure management, i.e., a short/long position to settle in the equities market and forward contract positions, securities lending and repo transactions in the process of being settled or renewed.

Prior to the auction, B3 will publish a notice containing deadlines, criteria and characteristics of the auction, as well as the positions subject to the auction and the procedures for cash settlement and transfer of positions to the winning investors.

Participation in the auction will be voluntary and is allowed to investors linked to full trading participants (FTP) and settlement participants (SP) who are authorized to act in market groups corresponding to the positions subject to the auction. As an alternative to executing orders through a FTP and SP, if a trading system managed by B3 is used to hold the auction, B3 may allow orders to be executed

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directly by the investor without prejudice to the responsibilities of its FTP or SP for orders so executed and for all obligations arising therefrom.

Holding an auction in a timely manner is key to mitigate the risk of unforeseen losses and preserve the CCP's ability to maintain the provision of services. Therefore, if B3 identifies a potential risk to the timeliness and effectiveness of the execution of this tool, it may restrict participation in the auction, allowing, for example, only FTPs and SPs linked to investors with exposure to the defaulter's portfolio to participate in the auction, this condition being previously disclosed in the respective notice.

Also for the purposes of timeliness and effectiveness, the defaulter's portfolio may be auctioned in a single lot, in smaller lots, or through individual instruments. If there are positions in the defaulter's portfolio arising from hedging during the default management process, B3 can offer investors the possibility of receiving those positions and reduce the risk of the portfolio subject to auction.

At the end of the auction, B3 will communicate the result to the FTP and SP responsible for the winning investors and will begin the process of settling the auction result and transferring the positions to these investors, who must first deposit the collateral. In exceptional situations, assessed on a case-by-case basis, B3 may authorize the deposit of collateral to occur after the transfer.

Lastly, under the terms of the Rulebook and the auction notice, transfers of positions to winning investors will be carried out by the B3 Clearinghouse on the cash settlement date of the auction result.

Compulsory early settlement

If the Clearinghouse's neutral position has not been reestablished after the auction, B3 may determine the mandatory closure out of the remaining contracts. In such case, the adoption of compulsory early settlement aims to close out contracts that correspond to the opposite position to the remaining open contracts in the defaulter's portfolio, thus reestablishing the balance of positions in the Clearinghouse.

In the case of a position in a non-fungible contract, i.e., an OTC derivative, asset forward contract based on assets or securities lending contract, early settlement consists of the usual procedure for the contract's early settlement.

In the case of a position in a fungible contract, i.e., a listed derivative contract, early settlement occurs through the registration of transactions between the defaulter and the investors holding opposite positions. For example, for a defaulter's long position, the transactions will have the defaulter as seller and investors holding a short position as buyers.

The quantity object of the transaction to be registered for each investor with a position opposite to the defaulter's position will be proportional to the quantities of these positions, respecting the contract's round lot. Furthermore, positions previously acquired by the investor through the auction tool may be considered in the calculation of the quantity subject to compulsory early settlement, and this quantity will be reduced to the minimum necessary for the CCP to reestablish the balance between long and short positions.

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Finally, the cash values for the positions' early settlement will be calculated in accordance with the pricing methodologies adopted by B3, with the assurance that the price to be used will be defined aiming the reestablishment of the Clearinghouse's neutral position and as close as possible to an estimate of the market's fair price.

Annex II to EXTERNAL COMMUNICATION 015/2024-VNC

Description of Changes to the B3 Clearinghouse Rulebook

TITLE II: CLEARINGHOUSE OPERATIONS AS CENTRAL COUNTERPARTY

CHAPTER VI: SPECIAL SITUATIONS

Section IV: Recovery Plan

▪ Article 168

The inclusion of this article aims to provide for the measures that may be adopted by B3 in the event of activation of the Recovery Plan due to the materialization of the scenario whereby it is impossible for the B3 Clearinghouse to close out all defaulting investors' positions within the prescribed period, and this represents, or is reasonably likely to represent, a financial loss in an amount greater than the funds of the Clearinghouse's safeguard structure. Or in the event B3 considers that failure to close out the defaulting investor's position could compromise the provision of services by the Clearinghouse after carrying out the steps stipulated for such closure, therefore making it impossible for the Clearinghouse to return to a neutral position, given the occurrence of an event of default.

In this regard, the new article provides for the measures that may be adopted upon activation of the Recovery Plan and by adopting the recovery tools defined for the scenario in question, namely, **(i)** holding an auction of the defaulting investor's positions; and **(ii)** if there are remaining open positions after the auction, those positions will be subject to compulsory early settlement.

Due to the inclusion of the new article in the Rulebook, the subsequent articles were renumbered.